

PUBLIC SERVICE COMMISSION OF WISCONSIN

Quadrennial Planning Process III

5-FE-101

ORDER

This is the Order establishing the step-by-step method for calculating avoided electric capacity costs for the purpose of evaluating Focus on Energy (Focus), the frequency with which avoided costs for the purpose of evaluating Focus shall be reviewed, and directing the Focus Evaluation Work Group (EWG) to propose to the Commission a method for calculating avoided transmission and distribution costs for the purpose of evaluating Focus.

BACKGROUND

Wisconsin law requires the Commission to review energy efficiency and renewable resource programs every four years to evaluate Focus and set or revise goals, priorities and measurable targets for the programs. Wis. Stat. § 196.374(3)(b)1.

The Commission's decisions in the first Quadrennial Planning Process covered the 2011-2014 period (docket 5-GF-191). The Commission's decisions in the second Quadrennial Planning Process covered the 2015-2019 period (docket 5-FE-100). The Commission's decisions for the current Quadrennial cover the period 2019-2022 (docket 5-FE-101).

Wisconsin Admin. Code § PSC 137.05(12) requires a third party, contracted by the Commission, to perform market assessment and evaluation activities necessary to measure the impacts and cost-effectiveness of Focus. A component of the evaluation of the cost-

effectiveness of Focus is the benefits realized through avoided energy and avoided electric capacity costs achieved when energy consumption and demand are reduced.

During the first Quadrennial Planning Process (Quad I), the EWG was established to advise the Commission on Focus evaluation issues. The EWG consists of a Commission staff representative that serves as the chairperson of the Work Group, a representative from the Program Administrator, an Evaluation Contractor representative, a utility representative, and an industry expert representative. ([PSC REF#: 137129](#).) Among the responsibilities of the EWG is to develop and recommend an appropriate method for valuing avoided energy costs. ([PSC REF#: 158228](#).)

The basis for calculating avoided electric capacity for the purposes of evaluating Focus was first established by the Commission during planning for Quad I. In its Final Decision of January 13, 2012, the Commission determined that the basis for calculating avoided capacity costs for the purposes of evaluating Focus shall be based on the cost of a new peaker plant. (*Ibid.* at 5.) This basis has been maintained in subsequent Quads. In its Final Decision for setting Focus goals, priorities, and measurable targets for Quad III, the Commission determined that, for the purposes of evaluating Focus, avoided electric capacity costs shall be based on the unit costs of a peaker plant. ([PSC REF#: 343909](#).)

Avoided capacity values are needed to evaluate Focus during Quad III and going forward. The EWG has investigated alternatives for calculating avoided capacity costs to evaluate Focus that align with the Commission's determination to base avoided electric capacity costs on the unit costs of a peaker plant. Cadmus, the Focus Evaluation Contractor, presented research, alternative approaches including a recommended approach, and resulting avoided capacity values to the EWG.

In considering alternatives for calculating avoided capacity costs, the EWG reviewed avoided cost calculation practices in other states, consulted with Commission staff on applicable methods and

data, and analyzed the likely impacts on existing Focus programs and measures. After considering all aspects of this review, the EWG recommended an avoided cost calculation method based on two Midcontinent Independent System Operator (MISO) generated values:¹

1. The costs of adding new peaking capacity – at present the cost of adding a new combustion turbine within MISO’s territory. More specifically, the MISO Cost of New Entry (CONE).

2. The energy costs associated with operating and generating electricity with the new unit as derived from the MISO Narrow Constrained Area (NCA) Mitigation Threshold Report.

As an additional component of its recommended approach to calculating avoided electric capacity costs, the EWG recommended that the value for avoided capacity be escalated, and that the escalation approach be based on approaches that align with the two components of the recommended avoided capacity value.

In order to avoid dramatic swings from one quadrennium to the next, and to ensure that the benefits calculated as part of the evaluation of Focus do not get out of alignment with market realities, trends, and forecasts, the EWG recommended that the Evaluation Contractor review avoided cost values annually. The findings from each annual review are to be presented to the EWG and the EWG may, at its discretion, recommend to the Commission that an update to the avoided costs be considered more frequently than once per quadrennium.

Finally, the EWG recommended that the Commission direct the EWG to propose a method for calculating avoided transmission and distribution costs that the Commission could consider as its

¹ Although these are referred to as MISO-generated values, as they are presented annually by MISO to the Federal Energy Regulatory Commission (FERC), in fact these values are generated on MISO’s behalf by the Independent Market Monitor (IMM), presently Potomac Economics, Ltd.

own stream of benefits in the overall calculation of avoided costs to be used only for the purposes of evaluating the benefits of Focus.

On March 25, 2020, the EWG submitted its recommendations to use an avoided electric capacity cost calculation method based on MISO CONE values plus a weighted average of the net revenues estimates from the MISO NCA Mitigation Threshold Report, to direct the Evaluation Contractor to review avoided costs annually, and to direct the EWG to propose a method for calculating avoided transmission and distribution costs to be used only for the purposes of evaluating Focus.

FINDINGS OF FACT

1. For the purposes of evaluating Focus, the EWG's recommended method for calculating avoided electric capacity costs as set forth below is reasonable and in the public interest.
2. The EWG's recommendation that the Focus Evaluation Contractor review avoided costs annually is reasonable and in the public interest.
3. The EWG's recommendation that the EWG propose to the Commission a method for calculating avoided transmission and distribution costs is reasonable and in the public interest.

CONCLUSIONS OF LAW

The Commission has jurisdiction under Wis. Stat. §§ 196.02, 196.374, and Wis. Admin. Code ch. PSC 137 to oversee and evaluate the statewide energy efficiency and renewable resource programs, and to set and revise goals, priorities, and budgets for Focus.

OPINION

After assessing the alternative methodologies to calculate avoided electric capacity costs, the EWG concluded that an approach that combines the MISO CONE with the MISO NCA analyses is appropriate and consistent with industry best practices, provides applicable regional specificity, and

properly captures the full cost of operating and new peaking resource. Furthermore, the EWG determined that the recommended approach satisfies key considerations for data source transparency, anticipated continuity of data availability, free or low-cost data, and flexibility to accommodate changes in Focus direction or priorities over time. The EWG's step-by-step calculation methodology is as follows:

1. Take the average of MISO CONE values for Local Resource Zone (LRZ) 1 and LRZ 2, which encompasses the territory of interest to Focus and the Commission. MISO publishes these values annually.
2. Take the weighted average of the NCA net revenues, which MISO publishes annually. The NCAs used in the calculation are Wisconsin-Upper Michigan System (WUMS), North WUMS and SE Minnesota/N Iowa/SW Wisconsin. The weights are based on the node loads used in the electric avoided cost approach and are then associated with each NCA.
3. To account for forecasted yearly growth in prices, escalate the most recent weighted NCA value by the MISO Transmission Expansion Plan (MTEP) forecasted growth in the average Locational Marginal Price for electricity across Wisconsin nodes during the peak period defined for Focus. Currently, the peak periods are defined as non-holiday weekdays from 1 - 4 PM CT during June, July, and August. The yearly percentage change for future MISO MTEP peak prices are used as an escalation factor for 30 years.
4. To account for forecasted yearly growth in construction costs, escalate the most recent average CONE value by a growth factor that takes into account inflation and construction costs. The growth factor is calculated by taking a four-year average of construction cost growth as determined by the Wisconsin Department of Transportation in the Chained Fisher Construction Cost

Index, and subtracting inflation (U.S. Bureau of Labor Statistics Consumer Price Index, Midwest Region), over the same period. Use the growth factor to escalate over a 30-year period.

The Commission determines that the EWG's recommended approach to calculate avoided electric capacity costs is consistent with the Commission's prior decision stating that, "[f]or the purpose of evaluating Focus, avoided electric capacity costs shall be based on the unit costs of a peaker plant." ([PSC REF#: 343909](#).)

The Commission finds it reasonable for the Focus Evaluation Contractor to review avoided costs annually and present the results of that review to the EWG. The Commission determines that an annual review of avoided costs will help to maintain an understanding of how the values used for the purposes of evaluating Focus align with market realities, trends, and forecasts.

The Commission finds it reasonable to direct the EWG to explore options and propose a methodology for calculating avoided transmission and distribution costs to be used for the purposes of evaluating Focus.

Commissioner Nowak dissents and would have recommended to continue to evaluate Focus on Energy without including a value for avoided transmission and distribution costs.

ORDER

1. For the purposes of evaluating Focus for the Quad III period, an avoided electric capacity cost calculation method using the most recent MISO CONE values for LRZ 1 and LRZ 2 plus a weighted average of the net revenues estimates from the MISO NCA Mitigation Threshold Report, is approved.

2. Avoided cost values shall be reviewed by the Evaluation Contractor annually and presented to the EWG.

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3. The EWG shall propose to the Commission a method for calculating avoided transmission and distribution costs to be used for the purposes of evaluating Focus.
4. The use of this avoided capacity cost method approved in this Order is limited to the context of the Focus program evaluation.
5. Jurisdiction is retained.

Dated at Madison, Wisconsin, the 1st day of June, 2020.

By the Commission:

A handwritten signature in black ink that reads "Steffany Powell Coker". The signature is written in a cursive, flowing style.

Steffany Powell Coker
Secretary to the Commission

SPC:MH:kle:pc DL:01728518

See attached Notice of Rights

PUBLIC SERVICE COMMISSION OF WISCONSIN
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**NOTICE OF RIGHTS FOR REHEARING OR JUDICIAL REVIEW, THE
TIMES ALLOWED FOR EACH, AND THE IDENTIFICATION OF THE
PARTY TO BE NAMED AS RESPONDENT**

The following notice is served on you as part of the Commission's written decision. This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

PETITION FOR REHEARING

If this decision is an order following a contested case proceeding as defined in Wis. Stat. § 227.01(3), a person aggrieved by the decision has a right to petition the Commission for rehearing within 20 days of the date of service of this decision, as provided in Wis. Stat. § 227.49. The date of service is shown on the first page. If there is no date on the first page, the date of service is shown immediately above the signature line. The petition for rehearing must be filed with the Public Service Commission of Wisconsin and served on the parties. An appeal of this decision may also be taken directly to circuit court through the filing of a petition for judicial review. It is not necessary to first petition for rehearing.

PETITION FOR JUDICIAL REVIEW

A person aggrieved by this decision has a right to petition for judicial review as provided in Wis. Stat. § 227.53. In a contested case, the petition must be filed in circuit court and served upon the Public Service Commission of Wisconsin within 30 days of the date of service of this decision if there has been no petition for rehearing. If a timely petition for rehearing has been filed, the petition for judicial review must be filed within 30 days of the date of service of the order finally disposing of the petition for rehearing, or within 30 days after the final disposition of the petition for rehearing by operation of law pursuant to Wis. Stat. § 227.49(5), whichever is sooner. If an *untimely* petition for rehearing is filed, the 30-day period to petition for judicial review commences the date the Commission serves its original decision.² The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

If this decision is an order denying rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not permitted.

Revised: March 27, 2013

² See *Currier v. Wisconsin Dep't of Revenue*, 2006 WI App 12, 288 Wis. 2d 693, 709 N.W.2d 520.